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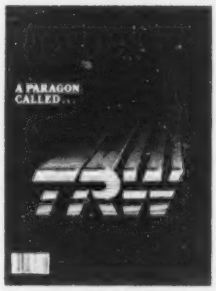

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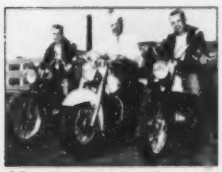

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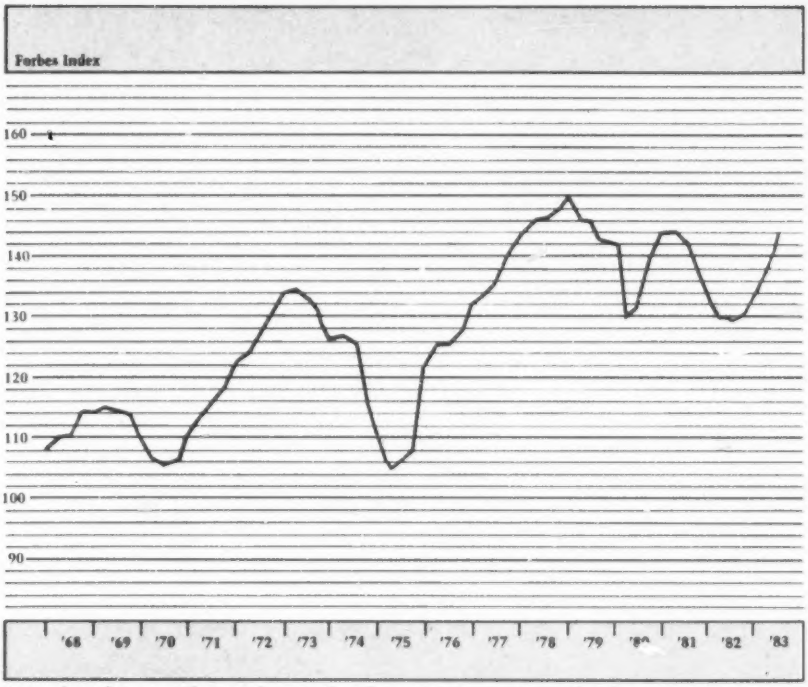
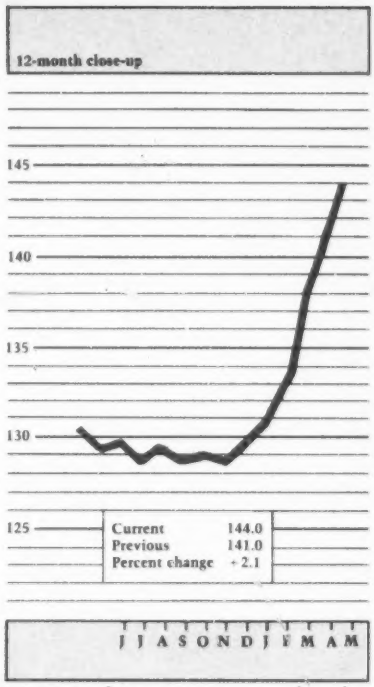
The Forbes Index





Keeping it up. The Forbes Index has run its string of consecutive advances to seven, registering a strong 2.1% gain. Good news is coming from both the business and consumer fronts. In fact, all of the indicators are flashing a bright green.

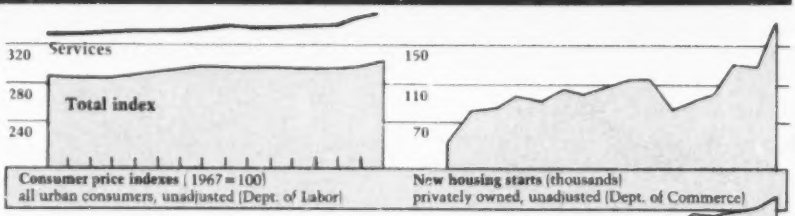
Industrial production was up 1.1% during the latest reporting period, following a 2% gain in April. New housing starts were up 27.7%. One reason consumers are buying is a 1.6% rise in personal income, compared with a 0.9% rise a month earlier.

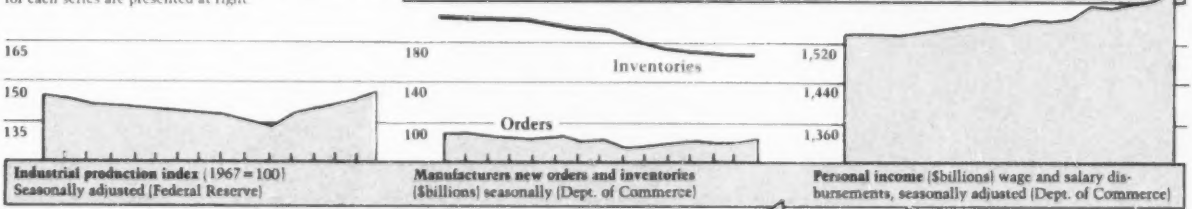
Consumers also were spending on items other than housing. Installment credit was up by 0.7% and that contributed toward a sharp 2.1% rise in retail store sales. Even the 0.5% rise in the Consumer Price Index was good news since it was small and is probably temporary, caused by a seasonal increase in gasoline prices.

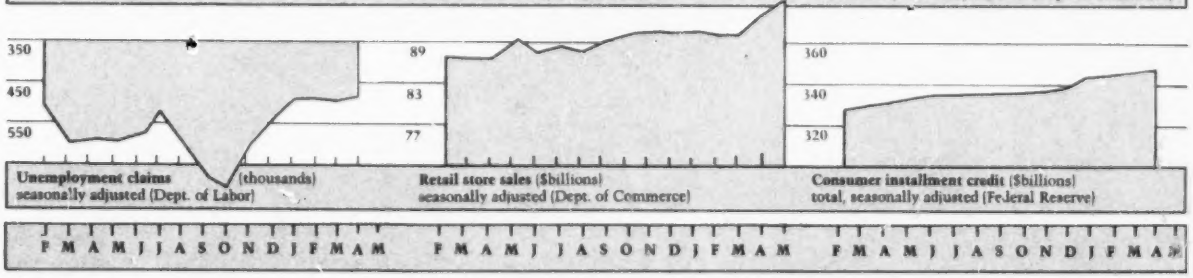
The Forbes Index Components

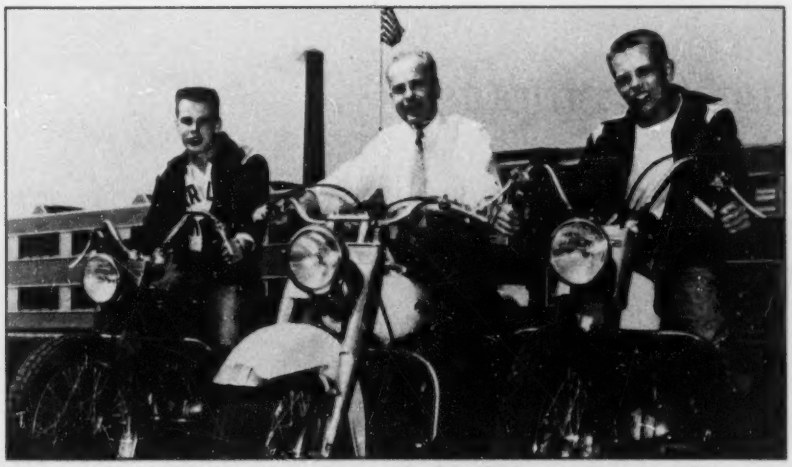
The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series are presented at right.









Willie Davidson (right) *and his father and brother (both retired), early 1950s*
It helps to have motorcycles in your blood.

ley eked out a small profit in the first quarter of 1983 and is expected to break even for the year. To buy time in the marketplace, they got a temporary additional tariff out of Washington—maybe it got more notoriety than it deserves—that starts at 45% and drops to zero in 1988. No cure, but a sporting chance.

The new Harley FXR series, released in 1982, gets high praise from motorcycle magazines—rare for Harley in the AMF past. Willie and Vaughn are now working on a stream of upgrades for other models.

And they have one big advantage: staying in very close touch with their clientele. They have the well-coordinated Harley Owners Group (H.O.G. for short). Davidson, Beals and other key Harley executives bike to motorcycling events and dealers around the country. "I can't imagine the president of Honda touring the country to find out what people think of his bikes," says Willie.

It helps to have motorcycles in your blood. "This is an irrational, emotional, hobby, sport-type business for which you need a sixth sense," sums up Willie Davidson. By which he means cycles are cyclical, seasonal, highly competitive and vulnerable to changing style, taste and technology. And that's in the good years.

Davidson shows a visitor into his cork-paneled, memento-decorated office in Harley's third-floor design studio. It looks like a motorcyclist's fantasy. ("I like working in the dark," he says of the black venetian blinds.) He lays out the strategy and the problems, which are big. Harley badly needs a brand-new model in both its traditional market and the 750cc to 900cc bikes, the next smaller and less-expensive range below the "hogs." And it must have a powerful, high-volume-production, low-cost engine.

The model is already there, still carefully under wraps and dubbed NOVA. And Harley even has the engine, designed by Porsche but not yet produced. "This bike will get us a bigger piece of the market," says Willie. "NOVA more than matches the Japanese." The Porsche engine is a godsend: It saves years of design time and is something Harley's market will buy. "There are a lot of guys who would rather chop off a finger than ride a Japanese bike," says an understandably biased Harley parts-manager about Japanese-built engines.

There's just one problem: where to get the $15 million to $18 million to put NOVA out onto the streets. And get it fast because, if the check came tomorrow, it would take two years to get the new bikes into Harley showrooms. The five-year tariff is on a sliding scale, and the minutes keep ticking away on Willie's Harley-emblemed custom quartz Omega watch. Their personal fortunes don't extend to another $18 million.

If they solve that problem, Willie Davidson and Vaughn Beals will put their machines back into close contention and cut the price premium down to what they think the product deserves. Until then, they have to be rated a long shot. Maybe a very long shot. Willie fiddles with a heavy gold ring that might imprint the Harley-Davidson emblem on some Yamaha dealer's jaw if Willie weren't a soft-spoken family man. He remembers jumping in two years ago with no certainty that they could get as far as they already have. ■

If you think the breakup of AT&T means opportunity for telephone equipment makers, think again. The market is already overcrowded.

Shakeout in progress

By Joan A. Briggs

THERE'S LOTS MORE MONEY yet to be lost in the telecommunications industry. Sure, the industry is appealing. It is huge. Nearly $4 billion worth of telephone switches alone were sold last year, to say nothing of transmission equipment, earth stations, cellular radios. It is glamorous. It seems to be wide open with the AT&T breakup. And it is growing—perhaps not as fast as in the early years of competition, but there is plenty of equipment out there that needs replacing as automated work stations displace telephones and typewriters in offices around the country.

But for a good many companies the promise of telecommunications, specifically of the switch business, will probably prove illusory. Indeed, the shakeout has already begun.

TRW, for example, which purchased Vidar back in 1975, dropped out of the business this year *(see p.*

Will today's winners be tomorrow's?

There is no standing still in the telephone-switching business. Below, market share data from 1980 and 1982 for the top companies in five market segments—key systems, small, medium and large PBXs and digital central office switches. Note the changes over two years. Next year the names and numbers could well be different.

Supplier	Key telephone systems		PBX under 100 lines		PBX 100-400 lines		PBX 400 + lines		Digital central office	
	1980	1982	1980	1982	1980	1982	1980	1982	1980	1982
Western Electric	54%	39%	25%	7%	51%	33%	60%	29%	0%	0%
Northern Telecom	2	3	6	4	5	13	14	23	45	60
Rolm	NA	NA	8	11	17	20	5	9	NA	NA
Mitel	NA	NA	21	36	*	2	0	0	NA	NA
Siemens	NA	0	9	10	3	4	0	*	NA	NA
Fujitsu	NA	NA	5	6	3	6	0	0	NA	NA
United Technologies	NA	NA	*	0	*	1	2	9	NA	NA
Plessey	NA	NA	*	*	0	0	0	0	22	16
ITT	17	19	*	4	*	0	*	0	12	8
NEC	4	5	3	5	2	3	3	8	12	10
TIE/communications	8	16	NA	NA	NA	NA	NA	NA	NA	NA
Iwatsu	3	6	NA	NA	NA	NA	NA	NA	NA	NA
Others	12	12	23	17	19	18	16	22	9	6
Total	100	100	100	100	100	100	100	100	100	100

*Less than 1%

Source: Northern Business Information

102). More recently Rockwell International decided to get out, looked for a buyer for a chunk of its Wescom subsidiary, which it purchased in 1980, and when one didn't materialize, closed the doors.

General Dynamics did find a buyer when it decided to exit the business. It sold most of its Stromberg-Carlson unit to United Technologies, which in turn sold the central office portion of SC to Britain's Plessey.

Another dropout was Datapoint. It had announced its intention to produce a digital switch three years ago and put together a special team to develop it. But the company threw in the towel in May. (To date, despite all the talk about the coming together of telephones and computers, no data processing company has succeeded in the switch market, and no telephone equipment producer has succeeded in data processing. One of the few companies equally strong in both of these areas is Nippon Electric, but, as Francis McInerney, vice president of Northern Business Information, a market research firm, points out, even that company has not yet put it all together.)

Despite the bloodletting, life hasn't gotten any easier for the survivors. If anything, it is even more competitive than before. At the moment, as the chart above makes clear, it's still possible to think in terms of market segments and leaders against Western Electric in those segments. Consider PBXs, or private branch exchanges, the switches located on customer premises. Mitel is clearly the leader in the small PBX market, Rolm in the midsize market and Northern Telecom in the large-size PBX market. Northern Telecom is also the leader in the digital central-office switch market. TIE/Communications, which sells equipment made by Japan's Nitsuko, and ITT are the ones to beat in key systems (push-button telephones with several lines). But the picture is not likely to remain static. Market positions could continue changing as rapidly as they did between 1980 and 1982. NEC, for example, has continued its gains this year, as has United Technologies. A relative newcomer nurtured by Exxon called Intecom has also made gains.

The current leaders aren't sitting content. They are attacking each other's markets and price-cutting like mad. Their goal is to gain as much market share as possible now before the AT&T subsidiaries, Western Electric and/or the new American Bell, get their acts together and devise strategies to protect and increase their remaining market share.

Price-cutting, of course, is not peculiar to the telephone switching market. But the PBX makers have another big reason to do it. If, as every one of them predicts, the PBX becomes the hub of automated offices, a sale today could mean plenty of add-on equipment in the future.

Neither the casualties nor the price-cutting has dissuaded newcomers. Some well-established European companies, such as France's CIT-Alcatel and Thompson-C.S.F., Britain's Plessey and Sweden's L.M. Ericsson, have entered the market, as have some younger homegrown startups: CXC, set up in 1981 in Irvine, Calif., promising deliveries this fall, and Ztel Corp. of Andover, Mass., next spring.

The newcomers are betting they can build a better mousetrap—that the switch they envision will be so much better than those "old technology" switches from the Seventies that the world will beat a path to their door. Trouble is, as both Mitel and ITT have found out, the new switch is no easy thing to build. Both companies have had to announce delays, and ITT will spend nearly $1 billion on its project.

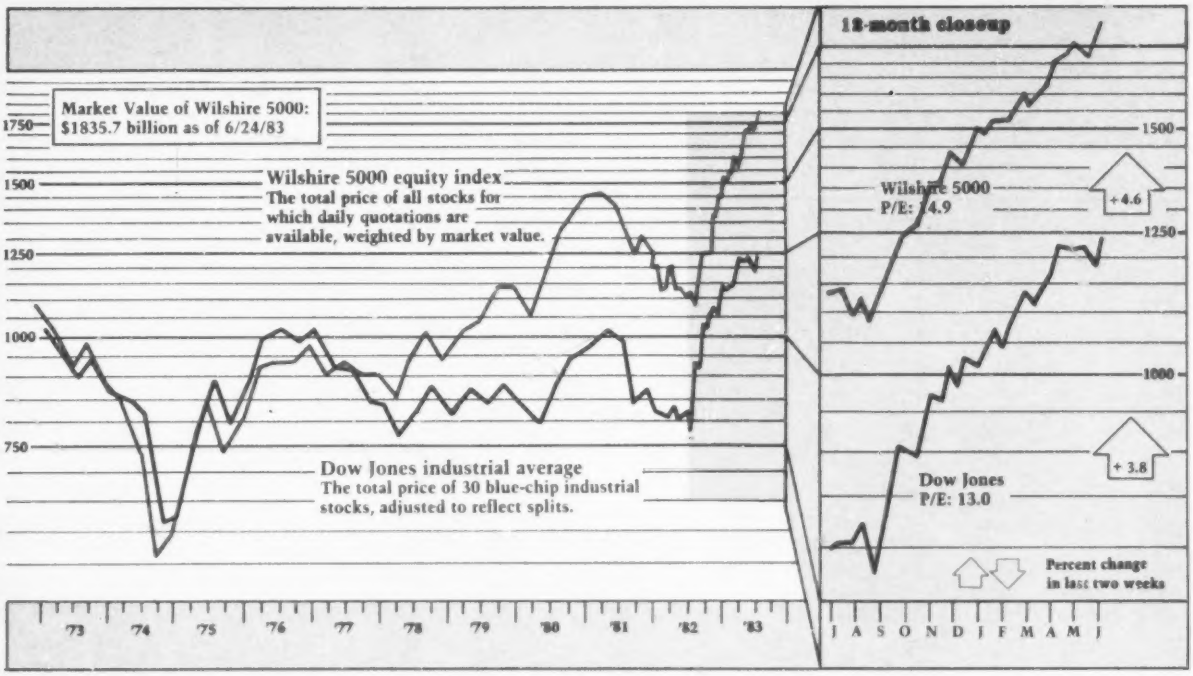
The idea is to leapfrog the established companies technologically. But do customers care? Some market watchers are convinced that customers now are far more interested in reliability and service than in faster and more versatile switches.

If that's true, the race could go to the likes of Northern Telecom and Rolm, which, of course, was recently blessed when IBM purchased 15% of its shares.

Or not. There are plenty of other people out there trying to take it away from them.

That's the trouble with markets so clearly on the side of history that practically everyone is aware of them. These companies may be first-rate outfits. Some are superb. But you should think hard before shelling out 40 times earnings for any of them. ■

The Forbes/Wilshire 5000 Review



Breaking more records. All major indicators hit new peaks, then had minor setbacks during the most recent two-week trading period. Nevertheless, the market shows handsome gains for both the two- and four-week stretches. Bargain hunting in the energy sector powered the Amex to a 5.9% two-week advance. In comparison the Dow added a more modest 3.8%, while the NYSE, Forbes 500 and Wilshire 5000 all sported gains of 4.6%. The price-to-earnings multiple on the Wilshire, up 4.9%, rose even faster than the index. Thus corporate earnings are still not rebounding as strongly as stock prices. When second-quarter reports are released, investors will get a chance to respond to this discrepancy.

The bull market is now approaching its first anniversary, and it has racked up some impressive statistics. According to the Wilshire index, the overall market is up 62.4%, and some $717 billion in capital has been created over the last 52 weeks. The Dow and Forbes 500 are nearly 55% higher, while Amex and NASDAQ issues are ahead 95.2% and 92.9%, respectively. Last year at this time it was easy to find stocks that were fundamentally underpriced. But with the average issue up more than 60%, and many with substantially greater gains, selection these days is much more difficult.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	4.1	3.5	2.1	3.8	6.3	5.4
in last 52 weeks	62.4	54.5	54.6	57.6	95.2	92.9

Stock performance based on five key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	3.6	7.7	9.9	0.7	7.5	5.5	0.8	7.4	8.3	1.4	5.1	6.9
in last 52 weeks	65.6	169.3	169.9	62.2	125.6	167.0	54.6	170.3	177.8	64.5	81.9	161.5

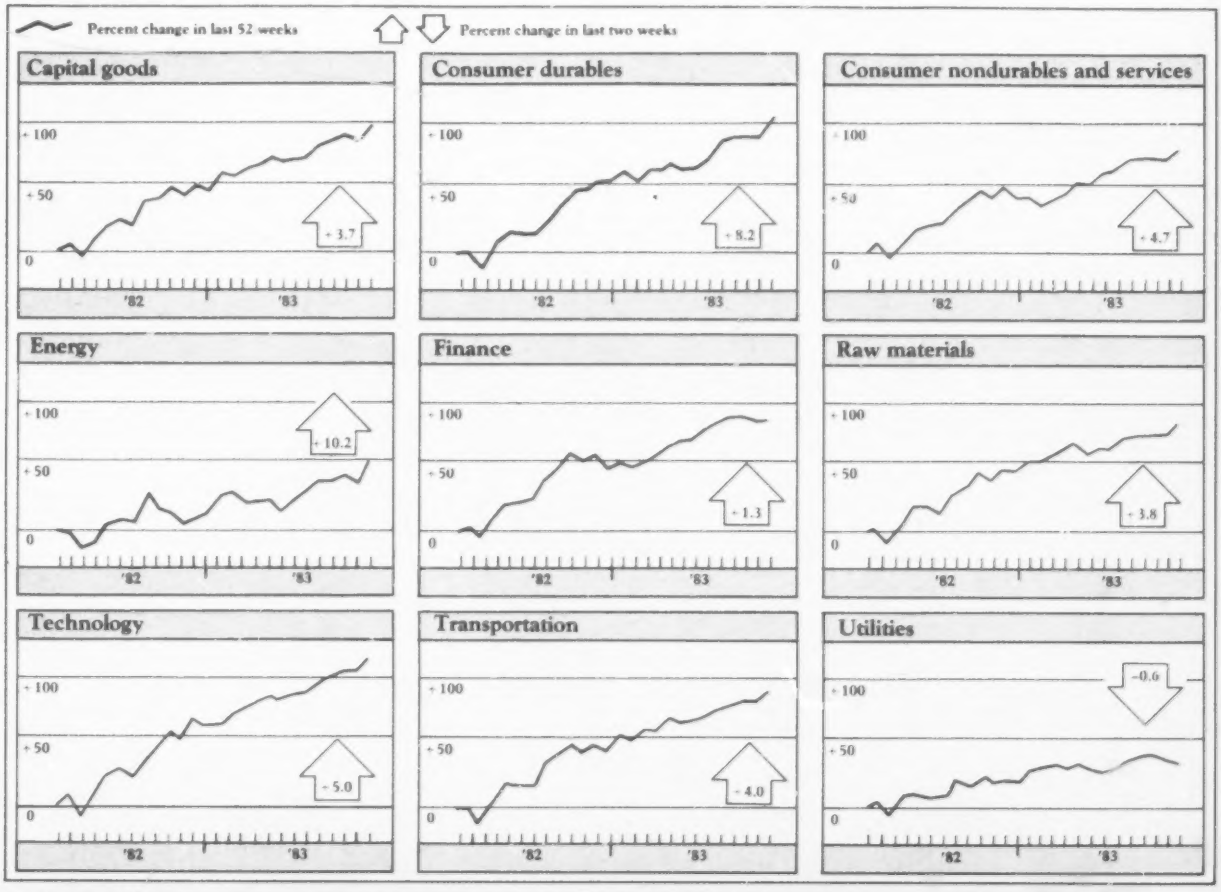
[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 6/24/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

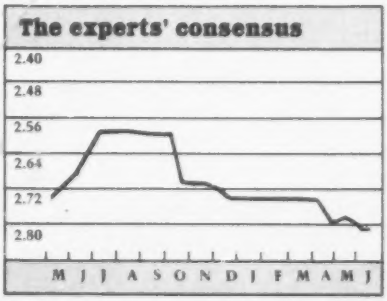
Problem in power alley. Electric utilities, off 0.6%, were the only stocks not shining brightly during the last two weeks. In fact, this group now lags the other eight sectors in 52-week performance, even though utilities led the other groups in rebounding from their bear market bottoms. For the last 52 weeks utilities are up 25.4%, vs. 107.3% for technology shares.

After recent weakness, energy stocks resumed their winning ways. For the two-week period the oil issues led all other sectors with a 10.2% gain. Energy shares are now 32.2% higher than they were one year ago. Consumer durables also did well, with an 8.2% advance. This sector got a lift from Detroit's impressive sales figures, which made investors eager to own auto stocks.



What The Analysts Think

What do they know that we don't? As technology stocks continue to roar ahead, institutional analysts continue to place them near the bottom of their buy/sell recommendations. Meanwhile, the analysts have utility shares at the top of their lists, even though this group has not been keeping pace with the market.



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Utilities	2.70	1	1
2	Energy	2.74	2	2
3	Finance	2.80	3	6
4	Transportation	2.82	4	7
5	Capital goods	2.83	5	3
6	Raw materials	2.84	6	5
7	Consumer nondurables	2.85	7	8
8	Technology	2.87	8	4
9	Consumer durables	3.06	9	9

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 6/24/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Statistical Spotlight

The Dow has been on a blistering hot streak since last August, and this market is already headed for the Hall of Fame. Isn't it overpriced yet?

Out of the ball park?

By Paul Bornstein

"IT'S A WHOLE NEW ball game," declares Bill LeFevre of Purcell, Graham. "Historically, this market is cheap, even though there are still a lot of doubting Thomases out there who still don't believe—even after the Dow has gone up some 450 points."

Hope or hype? Reasonable forecast? Or wishful thinking?

FORBES took a look at each major market cycle since 1934 from low to high. Recalling the old adage that the market is usually about six months ahead of earnings, we used the 12-month earnings concluding one quarter later than the dates of the market lows and highs.

If the hard-swinging losers like Bethlehem Steel and International Harvester are included, the Dow is selling at around 130 times earnings. This creates a distortion of the P/E not seen since the Depression. But eliminate the unprofitable firms, and the Dow multiple is about 13.

Only last August the Dow sold at 8.3 times earnings, and some investors are having difficulty accepting the present level. But the P/E on the Dow has ranged widely *(see table)* over the years, from as low as 6.2 to as high as 21.9. The average multiple since 1934 has been around 14.

Generally, P/Es are highest at the top of market cycles and lowest at the bottom. Two notable exceptions: 1934-37 and 1971-73. In the first case the market was recovering from the Depression, and earnings spurted up 206%. Stock prices didn't recover that fast, so the P/E fell from 21.9 to 16.2.

In 1971-73 the P/E fell to 13.6, from 14.1, while earnings rose some 37% after the 1970 recession. But the excitement then was with the glamour growth issues (remember "one-decision" stocks and the Nifty Fifty?) rather than Dow stocks.

In a sense there was just one great bull market that started in postwar 1949 and peaked at 995.2 in 1966. True, there were bear markets—marking the end of the Korean War and the Eisenhower recession, for example—but each bear market bottom was higher than the previous bottom and each bull peak higher than the previous one.

But in the 1970s and early 1980s P/Es slumped to single-digit levels. Investors perceived added risks from inflation, Vietnam, social unrest and the energy crisis. Not to mention higher capital gains taxes. The New York City financial crisis and other revelations of bad judgment eroded confidence. And stock buyers had a harder time evaluating firms because of accounting gimmicks on items such as inventory and pension funding. During this time the Dow traded between 550 and 1000. But LeFevre argues this market ended last August and that the new market is much like the one that started in June 1949.

If he's wrong and the multiples of the 1970s prevail in the 1980s, the few bears left will prove to be vindicated—and in spades.

But what if the bulls have it right? What if inflation, interest rates and investor confidence all trend back to the levels that prevailed for nearly 40 years before the era of stagflation?

Norman Fosback, editor of *Market Logic*, sums up: "Earnings will move sharply higher as the economy recovers, and P/E ratios will continue to expand. Thus there will be a dual upward pressure on stock prices."

So just how high can this market go, anyway? If we use Bill LeFevre's Dow earnings forecast for 1983 of $90 to $100 and the average bull market peak P/E of 15.8, the present market could yet move to a range of 1422 to 1580 on this year's earnings. But then there's 1984, which could be better. With low inflation, LeFevre thinks the P/E could go higher than 15.8.

For bears using 1970s multiples, of course, a 100-point or 200-point drop is indicated.

So pray for a return to the good old days. ■

Winning streaks

The strongest of the last 13 bull markets gained 128.7%. Although the current bull market is already up 60% in less than one year, the DJIA's current P/E of 13 still looks cheap relative to many past cycles.

Market cycle		—Bear market— low		—Bull market— high		DJIA
Low	High	EPS	P/E	EPS	P/E	% increase
7/26/34	3/10/37	$ 3.91	21.9	$11.97	16.2	127.3%
3/31/38	9/12/39	7.74	12.8	9.11	17.1	57.6
4/28/42	5/29/46	9.21	10.1	11.56	18.4	128.7
6/13/49	1/5/53	24.66	6.6	26.93	10.9	81.8
9/14/53	4/6/56	27.23	9.4	33.65	15.5	103.9
10/22/57	1/5/60	32.56	12.9	31.26	21.9	63.3
10/25/60	12/13/61	29.53	19.2	34.11	21.5	29.8
6/26/62	2/9/66	35.52	15.1	56.23	17.7	85.7
10/7/66	12/3/68	56.67	13.2	59.34	16.6	32.4
5/26/70	4/28/71	51.83	12.2	53.43	17.8	50.6
11/23/71	1/11/73	56.76	14.1	77.56	13.6	31.8
12/6/74	9/21/76	93.47	6.2	96.72	10.5	75.7
2/28/78	4/27/81	91.37	8.1	123.32	8.3	38.0
8/12/82	—	93.55*	8.3*	—	—	—

*Projected from those companies in the DJIA that have positive earnings.

Though far from a sure thing, the wheat versus corn spread described below has only infrequently disappointed traders.

AGAINST THE GRAIN

By Stanley W. Angrist

Spread traders, like folks who follow the ponies, have their favorites. One trade that is tracked by most spreaders year in and year out is long December wheat/short December corn. The rationale behind the spread is simple. Both corn and wheat prices have a tendency to decline during their harvest periods. The spread is put on during or just after the winter wheat harvest, normally in late spring or early summer, and it is lifted just after the corn harvest the following fall, in early November. So the wheat side of the trade is being bought when wheat should be near its seasonal low, and the short corn side of the trade is being covered when it should be near its seasonal low. By the time the trade is lifted, wheat should have recovered from its harvest glut and its prices should be on the rise.

The table gives the statistics for the spread since 1968. The data can be a bit misleading as presented. I think it is more realistic if the largest gain of $1.24 per bushel (made in 1973) and the largest loss of 90.98 cents (in 1976) are both thrown out. With those extremes aside, the average gain over 11 years becomes 32 cents, while the average loss for two years is only 8 cents.

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

Recently wheat has been in a blue funk, primarily because the crop looks so good. Above-normal rainfall in May, accompanied by below-normal temperatures, created an estimated yield of more than 40 bushels per acre, compared with last year's 36.1 bushels. On the corn side, there has been good commercial interest in owning futures contracts for the current crop year as well as corn for immediate delivery. However, we are planning to use December corn in our spread, which is a contract from the next crop year. Even though plantings fell behind normal levels and cool temperatures inhibited plant growth, demand will be on the slack side. Stocks are huge, and it looks as though the best market for new crop corn will be the government loan program. I see no reason, under present conditions, for the spread not to follow its usual seasonal tendencies.

Given that history, and these fundamentals, I would try to buy December wheat/sell December corn, wit.. the wheat at no more than 95 cents over the corn. I would look for a 30-cent ($1,500 per spread) profit, risking no more than 10 cents ($500 per spread) from my entry point. The margin on this trade should be the margin required on the wheat side, or about $750. The round-turn commission on the total spread—the sum required on both trades—is about $120. ■

Vive la différence!

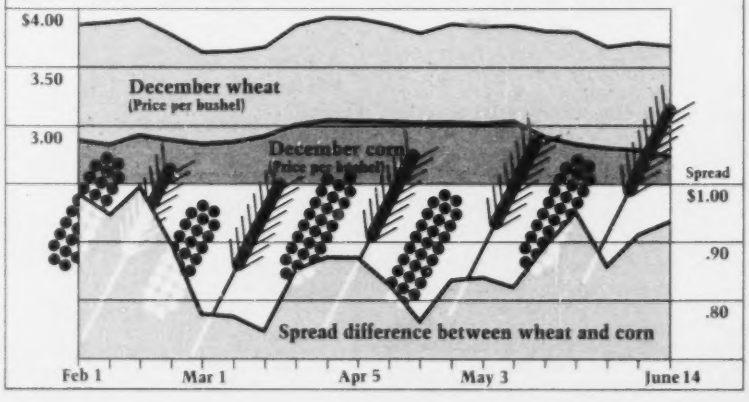
The December wheat versus December corn spread is usually put on in late spring and taken off in mid-fall. If a trader had placed the spread at the average price for late spring and lifted it in fall, he would have had a profit in 12 of the last 15 years.

Contract	Week ended June 3	Week ended Nov 11	Potential gain/(loss)
1968	27.47	16.41	(11.06)
1969	11.69	19.42	7.73
1970	19.69	27.70	8.01
1971	15.44	48.07	32.63
1972	25.56	89.63	64.07
1973	88.75	212.90	124.15
1974	128.35	134.50	6.15
1975	77.95	95.40	17.45
1976	111.13	20.15	(90.98)
1977	9.03	48.00	38.97
1978	69.50	130.63	61.13
1979	106.75	157.85	51.10
1980	140.75	145.95	5.20
1981	91.15	151.70	60.55
1982	104.63	99.10	(5.53)

Prices are cents per bushel.
Source: Shearson/American Express.

The wheat premium

This year the premium that wheat has commanded over corn has varied between about 75 cents and $1. This difference, history says, should widen between now and the end of the corn harvest.



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